August 19, 2022

LGB Forge Limited: [ICRA]AA (CE)(Stable)/[ICRA]A1+ (CE) withdrawn; [ICRA]BBB-(Stable)/[ICRA]A3 assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term fund-based facilities	17.00	17.00	[ICRA]AA (CE)(Stable) withdrawn; [ICRA]BBB- (Stable) assigned
Short term non-fund-based facilities	10.00	10.00	[ICRA]A1+ (CE) withdrawn; [ICRA]A3 assigned
Total	**27.00**	**27.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings take into account LGB Forge Limited's (LGBFL/LGB Forge/'the company') healthy capital structure, coverage metrics and adequate liquidity position. LGBFL has relatively low debt levels (Rs. 13.7 crore as on March 31, 2022) and healthy capital structure (gearing of 0.3x as on March 31, 2022). The company's coverage metrics also remain healthy with interest coverage of 4.3 times and DSCR of 3.3x in FY2022. LGBFL's liquidity position remains adequate with undrawn lines of Rs. 6.4 crore as on June 30, 2022, as against repayments of Rs. 0.5 crore in FY2023 and Rs. 0.1 crore in FY2024 on its existing term loans. The ratings also draw comfort from LGBFL's established client relationships, its diversified segment presence and clientele, and the operational and financial flexibility it enjoys from being a part of larger Coimbatore-based LGB group.

However, LGBFL is a modest-scaled player (with an operating income of Rs. 130.1 crore in FY2022) in the highly competitive forging industry with pressure from larger players, restricting its pricing flexibility. It also has relatively low market share with its customers because of its scale. LGBFL's operating margins are moderate and declined to 7.4% in FY2022 from 10.3% in FY2021, because of increase in RM prices and inability to entirely recover the same from clients. Going forward, the impending electrification of automotive industry could have a bearing on the company's revenues over the medium term, by virtue of LGBFL catering to auto electricals. However, company's segment diversification, presence in components that are unlikely to be impacted by the EV transition and anticipated addition of new products going forward, mitigate the risk to an extent. On the margin front, the recent softening of steel prices is likely to provide some relief. Despite the anticipated debt-funded capex for FY2023 and FY2024, the company's capital structure, coverage metrics and liquidity position are likely to remain comfortable going forward.

The ratings of [ICRA]AA (CE)(Stable)/[ICRA]A1+ (CE) that were outstanding on the Rs. 27.00 crore bank lines of the company have been withdrawn as the corporate guarantee from L.G. Balakrishnan and Bros Ltd for LGB Forge's bank facilities cease to exist. This is in accordance with ICRA's policy on withdrawal and suspension.

Key rating drivers and their description

Credit strengths

Healthy capital structure, coverage metrics and adequate liquidity position – By virtue of its modest capex compared to accruals, LGBFL has relatively low debt levels (Rs. 13.7 crore as on March 31, 2022) and healthy capital structure (gearing of 0.3x as on March 31, 2022). The company's coverage metrics also remain healthy with interest coverage of 4.3 times and DSCR of 3.3x in FY2022. LGBFL's liquidity position remains adequate with undrawn lines of Rs. 6.4 crore as on June 30, 2022, as against repayments of Rs. 0.5 crore in FY2023 and Rs. 0.1 crore in FY2024 on its existing term loans. Despite the anticipated debt-funded capex for FY2023 and FY2024, the company's capital structure, coverage metrics and liquidity position are likely to remain comfortable going forward.

Revenue diversification across segments and clients – LGBFL is a tier-II player and supplies to reputed tier-I auto component suppliers in both the domestic and export markets. Its customer profile is diversified, with no single customer accounting for more than 20% of revenues. Further, the company's revenues are diversified across passenger vehicles (PV), light commercial vehicles (LCV), two wheelers (2W) and tractors. This insulates revenues from risks arising from downturn in a particular segment or lower volumes from a specific client to an extent.

Financial and operational flexibility arising from being a part of larger Coimbatore-based LGB group – LGB Forge enjoys financial flexibility and lender/investor comfort by virtue of belonging to the larger Coimbatore-based LGB Group. The promoters owned 73.82% stake in the company as on June 30, 2022, with 28.45% stake held by Mr. V Rajvirdhan, grandson of Mr. L. G. Balakrishnan. Also, it enjoys operational flexibility by being part of the larger group.

Credit challenges

Modest scale of operations; intense competition from larger/unorganised players restricts pricing flexibility – The company has a modest scale of operations with an operating income of Rs. 130.1 crore in FY2022, that limits the benefits arising from economies of scale. Further, LGBFL is a relatively small player in the highly competitive forging industry with pressure from larger players, restricting its pricing flexibility. It also has relatively low market share with its customers because of its scale. Nonetheless, the established relationships with reputed tier-I auto components suppliers support its revenues to an extent.

Margins susceptible to increase in raw material prices – LGBFL's primary raw material is steel, the price of which substantially increased in FY2022. The company's margins are susceptible to raw material price increases, given its limited ability to pass through the same in a timely manner. LGBFL's operating margins declined to 7.4% in FY2022 from 10.3% in FY2021, because of increase in RM prices and inability to entirely recover the same from clients. However, the recent softening of steel prices is likely to provide some relief. The company is a net exporter and, hence, would not be impacted by the depreciation of the INR against the USD.

Impending electrification of automotive industry could have a bearing on the company's revenues – Some of the company's products are auto electrical components, and the usage of same is expected be minimised in electric vehicles in comparison to those with internal combustion engines. As a result, the move towards electrification of automobiles might impact its revenues over the medium to long term. However, company's segment diversification, presence in components that are unlikely to be impacted by the EV transition and anticipated addition of new products going forward, mitigate the risk to an extent.

Liquidity position: Adequate

The company's liquidity position is adequate, with healthy fund flows from operations and buffer of Rs. 6.4 crore in working capital lines, as on June 30, 2022. The average fund-based utilisation was 35.1% of sanctioned limits and 33.7% of drawing power for the twelve months ending June 2022. As against these sources of cash, the company has repayments of Rs. 0.4 crore and Rs. 0.1 crore respectively for FY2023 and FY2024, on its existing loans. LGB Forge has capex commitments of Rs. 10.0 crore each in FY2023 and FY2024, and maintenance capex of Rs. 2-3 crore in FY2025; part of this capex is likely to be debt-funded. LGB Forge also enjoys lender/investor comfort by virtue of belonging to the larger Coimbatore-based LGB Group.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates a significant improvement in its scale of operations and margins, resulting in improvement in debt protection metrics and liquidity position.

Negative factors – The ratings may be downgraded if there is a sharp deterioration in its earnings or liquidity position; or significant rise in debt levels either due to working capital stretch or significant debt funding capex resulting in Total Debt/ OPBDITA>3.0x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology ICRA Policy on Withdrawal of Credit Ratings Rating Methodology for Auto Component Suppliers
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

LGB Forge Limited is involved in manufacturing of forged (hot, warm and cold forgings) and machined components. It is a tier-II auto ancillary player and caters to both domestic (81% of revenues in FY2022) and export markets, and to the PV, LCV, 2W and tractor segments. It derives majority of the revenue from domestic market (81% of sales in FY2022) and rest from exports. The company has manufacturing facilities located at Coimbatore (Tamil Nadu), Pondicherry and Mysore (Karnataka) with a capacity to produce 5.7 million hot forged components and 6.5 million cold forged components. It is a part of the larger Coimbatore-based LGB Group, which includes L.G. Balakrishnan & Bros Limited. The promoters owned 73.82% stake in the company as on June 30, 2022.

Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating income	92.1	130.1
PAT	3.4	3.4
OPBDIT/OI	10.3%	7.4%
PAT/OI	3.7%	2.6%
Total outside liabilities/Tangible net worth (times)	1.2	1.2
Total debt/OPBDIT (times)	1.4	1.4
Interest coverage (times)	4.4	4.3

Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of June 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	Date & rating in FY2019
					August 19 2022	September 15, 2021	June 12, 2020	-	March 28, 2019
1	**Fund based/CC**	Long term	17.00	-	[ICRA]BBB- (Stable)	[ICRA]AA (CE)(Stable)	[ICRA]AA (CE)(Stable)	-	[ICRA]AA (SO) (Stable)
2	**Non-fund based**	Short term	10.00	-	[ICRA]A3	[ICRA]A1+ (CE)	[ICRA]A1+ (CE)	-	[ICRA]A1+ (SO)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based /CC	Simple
Short -term non-fund based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash credit**	NA	NA	NA	17.00	[ICRA]BBB- (Stable)
NA	**Bank guarantee/Letter of credit**	NA	NA	NA	10.00	[ICRA]A3

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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